But since, as has been shown, capitalisation of reserves has no effect upon the earning power and assets of the company, it is interesting to try and discover why the rumour and announcement of such an intention on the part of the board of directors is nearly always accompanied by a rise in the shares of the company affected. If the shareholder is merely to be given a larger nominal claim, which does not in the least affect the value of the assets which that claim concerns, and if the relative amount of his claim is exactly the same with regard to the other shareholders, it is clear that the rise in the value of the shares is based entirely either on a psychological mistake on the part of the public and its financial advisers, or on the fact that the transaction called attention to the value of the shares which have hitherto been undervalued in the market. Probably the movement arises from both these causes. A large number of people think they are "better off if they have a larger nominal share, without considering that all the other shareholders are at the same time having their claim increased, that the assets to which they all have a claim are not being increased, and that, consequently, if a sharing-out process were to take place they would all be exactly as they would have been if no such capitalisation of reservee had been

carried out. And if a sufficient number of people think that a share or any other commodity is more valuable, it thereby becomes more valuable, because value is nothing else than the amount, whether in money or other commodities, at which a commodity can be disposed of.